

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

TO: THE COMMISSION

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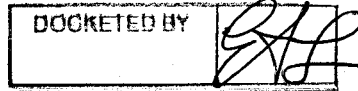
2015 FEB 12 P 4: 58

FROM: Utilities Division

FEB 12 2015

AZ CORP COMMISSION
DOCKET CONTROL

DATE: February 12, 2015



ORIGINAL

RE: IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES
(LITCHFIELD PARK WATER AND SEWER) CORP. TARIFF FILING FOR
APPROVAL OF AN AGREEMENT WITH THE CENTRAL ARIZONA
WATER CONSERVATION DISTRICT AND EFFLUENT TARIFF DOCKET
NOS. SW-01428A-14-0369 AND W-01428A-14-0369

7

Background

On October 14, 2014, Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Liberty" or the "Company") filed an application seeking approval by the Arizona Corporation Commission ("Commission") of specific provisions of an Agreement for Development of Effluent Recharge Facility, Effluent Disposal and Purchase and Sale of Effluent that Liberty entered into with the Central Arizona Water Conservation District ("CAWCD") on February 6, 2014. Liberty is a public service corporation that provides water and wastewater services in the Phoenix Active Management Area. Liberty holds a Certificate of Convenience and Necessity ("CC&N") issued by the Commission. The Commission approved Liberty's current rates and charges for wastewater service, including the sale of effluent, in Decision No. 74437 dated April 18, 2014.

According to Liberty, CAWCD is a multi-county water conservation district organized and existing under the laws of the state of Arizona. Pursuant to A.R.S. § 48-3772, CAWCD is authorized to develop, construct, operate, maintain, replace and acquire permits for water storage for replenishment purposes. CAWCD is also authorized to acquire, transport, hold, exchange, own, or lease water and water rights for replenishment purposes.

The Central Arizona Groundwater Replenishment District ("CAGRDR") is a division of the CAWCD formed to provide a mechanism for landowners and water providers to demonstrate an assured water supply. CAGRDR is responsible for replenishing groundwater pumping of subdivisions and water providers that have enrolled as members of CAGRDR. CAGRDR's customer base consists of member lands (subdivisions) and member service areas (water providers) that have contracted with CAWCD for replenishment services.

CAWCD has enrolled member lands and member service areas in the west Salt River Valley groundwater basin of the Phoenix Active Management Area. To the extent reasonably feasible, CAWCD desires to satisfy its replenishment obligation associated with such member lands and member service areas using sources in close proximity to such members' groundwater pumping sites.

Liberty's service area includes member lands and many of Liberty's customers pay a CAGR assessment in property taxes for replenishment of groundwater.

The Effluent Recharge Project

Liberty owns and operates the Palm Valley Wastewater Reclamation Facility ("PVWRF") at 14222 W. McDowell Road in Goodyear, Arizona. PVWRF currently produces approximately 3.6 million gallons per day ("MGD") of A+ quality effluent. Liberty is currently permitted to operate at 5.1 MGD with a maximum treatment capacity of 8.2 MGD in various phases in the future. At 3.6 MGD, PVWRF will produce approximately 4,025 acre-feet ("AF") per year. In 2013, PVWRF generated 2,900 AF of effluent in excess of reuse demands and Liberty estimates that total effluent production from PVWRF in excess of reuse demands may increase to approximately 3,500 AF per year by 2017, with increased amounts thereafter.

To support water supply availability within Liberty's CC&N and to benefit Liberty's utility customers and the general public, Liberty proposes to recharge into the aquifer any effluent discharged from PVWRF within its CC&N in excess of reuse demands. Specifically, Liberty and CAWCD propose to construct an underground effluent storage facility to be located within Liberty's CC&N capable of recharging at least 5,000 AF of effluent annually ("Effluent Recharge Project").

Liberty and CAWCD are jointly developing the Effluent Recharge Project in order to dispose of excess effluent from PVWRF in conjunction with a 100-year agreement for CAWCD to receive and recharge such effluent to offset replenishment obligations for this region.

On June 22, 2010, CAWCD and Liberty executed an agreement to cost-share a Hydrologic Feasibility Study ("Hydrological Study") to determine feasibility of constructing a recharge facility within Liberty's CC&N. Liberty indicates that the mutual goal of the parties was to initiate a long-term partnership between Liberty and CAWCD for the development of a recharge facility to store excess effluent produced at PVWRF or other wastewater reclamation facilities, and to enter a long-term agreement for CAWCD to acquire and receive such excess effluent from Liberty.

According to Liberty, the Hydrologic Study proceeded in two phases. Phase 1 involved retaining a hydrological consultant to locate and determine suitable sites for the proposed Effluent Recharge Project. Phase 2 involved retaining a hydrological consultant to provide conceptual designs, cost estimates and a feasibility analysis for construction of the proposed Effluent Recharge Project. The Phase 1 investigation was completed on February 17, 2011, and identified several potential sites for the proposed Effluent Recharge Project. The Phase 2 investigation was completed on or about August 1, 2013, and determined that a viable, cost-effective Effluent Recharge Project capable of storing at least 5,000 AF of effluent annually can be developed and constructed within Liberty's CC&N.

The Development Agreement

As indicated above, on February 6, 2014, Liberty and CAWCD entered into an Agreement for Development of Effluent Recharge Facility, Effluent Disposal and Purchase and Sale of Effluent ("Development Agreement"). A copy of this Development Agreement was provided under Exhibit A to the pending Application.

The Central Arizona Project ("CAP")/CAWCD Board unanimously approved the Development Agreement at an open meeting on February 6, 2014. The Development Agreement governs (1) the development, design, funding, construction and operation of the Effluent Recharge Project; (2) the agreement for Liberty to sell/dispose of and deliver 2,400 AF of effluent to CAWCD per year for 100 years; and (3) the agreement for the purchase by CAWCD of Long-Term Storage Credits accrued by Liberty at the Effluent Recharge Project and the pricing terms.

CAWCD and Liberty have agreed to jointly finance the Effluent Recharge Project. Under the Development Agreement, CAWCD shall pay a minimum of \$4,800,000 and Liberty shall pay a minimum of \$1,200,000 for costs associated with the development, design, permitting and construction of the Effluent Recharge Project. Those costs are subject to change based on actual, final construction costs for the Effluent Recharge Project. Liberty shall own and operate the Effluent Recharge Project.

Under the Development Agreement, Liberty shall grant CAWCD an annual entitlement to 2,400 AF of storage capacity and deliver 2,400 AF of effluent per year to CAWCD at the Effluent Recharge Project for 100-years ("Effluent Entitlement"). CAWCD shall pay Liberty to deliver CAWCD's Effluent Entitlement (2,400 AF) to the Effluent Recharge Project. The delivery charge is \$27.16 per AF of effluent delivered to the Effluent Recharge Project, subject to annual Consumer Price Index – All Urban Consumers ("CPI-U") adjustments.

Currently, Liberty pays Roosevelt Irrigation District ("RID") approximately \$21 per acre-foot to dispose of excess effluent from PVWRF, plus an additional \$2,500 monthly connection fee for a discharge box constructed adjacent to the RID canal. Liberty's excess effluent is delivered for disposal in the RID Canal through that discharge box owned by Liberty.

Disposal of excess effluent through the agreement with RID is not a sufficient long-term option because (1) Liberty does not have a long-term agreement with RID, (2) RID may or may not continue to allow discharge of effluent to the RID canal, (3) the RID canal has annual dry up periods during which effluent discharge is not accepted, requiring Liberty to dispose of effluent on farm fields, the availability of which is disappearing due to organic farming that does not allow use of effluent, (4) any breach of the RID canal results in immediate disruption of effluent discharges to the RID canal and (5) customers that benefit from discharge of effluent to the RID canal are located miles outside of Liberty's CC&N, meaning that groundwater availability within Liberty's CC&N is not directly benefitted from discharge of effluent to the RID canal. Other available alternatives to

address long-term disposal of the PVWRF excess effluent would be for Liberty to construct and fund an effluent recharge project itself or construct a long-distance pipeline to the Agua Fria River.

Under the Development Agreement, Liberty has committed to delivering and disposing of effluent discharged from PVWRF that is not reused by customers within or outside Liberty's CC&N service area, or delivered to CAWCD pursuant to the Effluent Entitlement, to the Effluent Recharge Project. Liberty has agreed to store such effluent at the Effluent Recharge Project to generate Long-Term Storage Credits as authorized by applicable law. Under the Development Agreement, Liberty agrees to sell to CAWCD the 2,400 AF Effluent Entitlement each year at the rate(s) set forth in the Development Agreement and CAWCD agrees to purchase from Liberty all Long-Term Storage Credits accrued and offered by Liberty at the Effluent Recharge Project that are not required for Liberty's own water supply purposes for a period of 100 years. The charge for Long-Term Storage Credits in 2013 was \$138.00 per acre-foot, subject to annual CPI-U adjustments. The charge for such Long-Term Storage Credits is also subject to other price adjustments that either party may request every five years.

On May 13, 2014, Liberty executed a purchase contract with the landowner for acquisition of the site for the Effluent Recharge Project. Liberty shall own and operate the Effluent Recharge Project, including any and all land on which the Project is located.

Liberty owns an existing pipeline that will transport effluent from PVWRF to the Effluent Recharge Project (the "Effluent Pipeline"). CAWCD shall pay Liberty approximately \$1,313,100 for use of the pipeline for a 100-year period. Upon such payment, Liberty shall reserve to CAWCD the necessary capacity in the Effluent Pipeline sufficient to transport 2,400 AF of effluent per year to the Effluent Recharge Project.

Under the Development Agreement, Liberty and CAWCD will share operation and maintenance costs of the Effluent Recharge Project and Effluent Pipeline.

Commission Approval

Liberty asserts that because of its substantial financial commitment for the Effluent Recharge Project, CAWCD seeks assurances from the Commission that Liberty has the right and authority to commit the Effluent Entitlement to CAWCD for 100 years, including approval of the agreed upon rates and rate-adjustment mechanisms for delivery and disposal of Effluent to the Effluent Recharge Project and purchase of Long-Term Storage Credits by CAWCD.

Liberty asserts and believes that Commission approval of the Development Agreement for sale of effluent to CAWCD is not necessary or required under Arizona law. Liberty also asserts that it is not waiving any arguments relating to Commission jurisdiction, future sales of effluent, or any other similar issues relating to the Effluent Recharge Project and the Development Agreement. As stated above, Liberty is making this filing because CAWCD, a public entity, seeks certainty that the Effluent Entitlement from Liberty will be available to meet CAWCD's replenishment obligations at the agreed charges set forth above. CAWCD also seeks assurances from the Commission as to

Liberty's provision of the Effluent Entitlement to CAWCD for 100 years as provided in the Development Agreement, and that the rates for the Effluent Entitlement and purchase of Long-Term Storage Credits in the Development Agreement do not violate any Commission rules, policies and decisions and/or tariffs of Liberty.

Ultimately Liberty seeks Commission approval of the following "special contract terms" set forth in the attached Development Agreement as being in the best interests of Liberty's customers, the public and CAP/CAWCD:

- Article 3, § 3.1.3 CAWCD's Storage Capacity Entitlement. Approval of Article 3, § 3.1.3 of the Development Agreement relating to CAWCD's entitlement to 2,400 AF of storage capacity in the Effluent Recharge Project for 100 years.
- Article 3, § 3.1.10 Effluent Delivery Charge. Approval of Article 3, § 3.1.10 of the Development Agreement relating to Liberty's per-AF delivery charge for transportation, delivery and disposal of CAWCD's Effluent Entitlement at the Effluent Recharge Project. Based on 2013 data, that effluent delivery charge amounts to \$27.16 per acre-foot, subject to CPI-U adjustments in future years.
- Article 4, § 4.1.1 CAWCD's Effluent Entitlement. Approval of Article 4, § 4.1.1 of the Development Agreement relating to CAWCD's annual Effluent Entitlement and Liberty's 100-year obligation to deliver the Effluent to the Effluent Recharge Project.
- Article 5, § 5.1.4 (Term) and § 5.1.5 (Purchase Price). Approval of Article 4, §§ 5.1.4 and 5.1.5 of the Development Agreement relating to Liberty's agreement to sell and CAWCD's agreement to purchase Long-Term Storage Credit accrued by Liberty at the Effluent Recharge Project for 100-years and the proposed pricing for those Long-Term Credits.

Benefits of the Effluent Recharge Project

Liberty indicates in its application that the Effluent Recharge Project will provide a number of benefits. Liberty asserts the Effluent Recharge Project will increase the water supply availability within Liberty's CC&N specifically and in the West Valley generally, which will benefit Liberty's customers and the general public. The Effluent Recharge Project will recharge effluent within one mile of declining groundwater elevations associated with the "Luke Sink" near Luke Air Force Base, which will in turn help address problems resulting from declines in ground water elevations in the area.

Liberty also indicates there are a number of other benefits associated with the Effluent Recharge Project. First, it will increase CAWCD's ability to recharge the aquifer in the already-developed portions of the western Phoenix AMA, which will ultimately benefit Liberty's customers and the general public. Second, the Effluent Recharge Project will reduce the need for CAP water in recharge operations and support the use of a long-term renewable supply of water through excess

effluent from PVWRF. Third, the Effluent Recharge Project will benefit Liberty's customers by resolving the Company's need for a long-term method for disposal of excess effluent from PVWRF. According to Liberty, the Company currently pays RID \$21 per acre-foot to dispose of excess effluent from PVWRF plus an additional \$2,500 monthly connection fee. Liberty claims that in the event this project does not move forward it will need to construct and fund a similar effluent recharge project or a long-distance pipeline to the Agua Fria River to find a long-term solution for disposing of excess effluent. Liberty notes that in either case Liberty's customers would face a rate increase attributable to funding the entire cost of either project. For this reason, Liberty asserts that the joint Effluent Recharge Project will provide an economically beneficial means for it to dispose of excess effluent, while minimizing rate impacts to its customers. Fourth, Liberty asserts that this project will provide a model for public-private partnerships that increase CAP availability and recharges aquifers with excess effluent.

Further, Liberty claims there are a number of benefits associated with the project that will inure to its customers specifically. First, the Effluent Recharge Project will recharge the aquifer and replenish the groundwater within Liberty's CC&N area and within the service area where the groundwater is pumped. Liberty notes that many of its customers pay a CAGR assessment in property taxes from groundwater replenishment. Second, Liberty asserts that the Effluent Recharge Project will benefit customers by providing Liberty with yearly payments from CAWCD. Liberty asserts that these payments for the Effluent Entitlement and Long-Term Storage Credits will create a stable revenue source to strengthen Liberty's financial capacity to serve.

The Effluent Recharge Project will reduce the need for CAP water in recharge operations and support use of a long-term renewable supply of water through excess effluent from PVWRF.

Staff Analysis

Staff reviewed Liberty's Application inclusive of Exhibit A – the Agreement for Development of Effluent Recharge Facility, and Effluent Disposal and Purchase and Sale of Effluent, Exhibit B – Legal Description for a Map of the Project Site, and Exhibit C – a Spreadsheet Illustrating the Rate Benefit of the Effluent Recharge Project with CAWCD by Comparison to an Effluent Recharge Project Funded Solely by Liberty.

After reviewing the Application, Staff agrees the Effluent Recharge Project will result in public benefits. These public interest benefits are expected to include an increase in water supply availability within Liberty's CC&N, help reverse declining ground water elevations in the Luke Sink area, and reduce the need to use CAP water to meet recharge obligations.

Generally, the Commission does not dictate methods that a public service corporation must use for disposal of effluent. However, the Commission does recognize that such disposal must comply with Arizona Department of Environmental Quality requirements and such disposal should represent a cost effective alternative

The Development Agreement (also referred to as the "Arrangement") that Liberty has entered into with CAWCD (the "parties") is unique and the parties are making a broad spectrum of commitments for a 100-year period. The overall goal of both parties appears to be to achieve a fair and balanced plan that will benefit the local aquifer while delivering long-term solutions for the CAWCD, Liberty, and for Liberty's ratepayers.

Although this Arrangement is long-term in nature and unique, Staff supports the overall concept. However, Staff also agrees with Liberty that entering into the underlying Development Agreement, and selling effluent to CAWCD are matters of management discretion. Staff further agrees with Liberty that specific Commission approval of any isolated elements of this Arrangement or the Agreement as a whole is not required based on the circumstances of this case. While Staff does not recommend that the Commission approve the Agreement or any isolated elements of the Agreement, Staff does recommend that the Commission express its general support for the Arrangement due to the public benefits to be derived. In particular, Staff recommends that the Commission acknowledge that the Arrangement is predicated on following key elements:

1. Liberty is committing to selling/disposing and delivering 2,400 AF of excess effluent, and to the sale of long-term storage credits derived from the utilization of excess effluent to meet water recharge obligations, to CAWCD each year for a 100-year period;
2. The rates to be utilized to perfect dealings under this Arrangement, while uniquely structured in terms of a reliance upon CPI-U-driven annual billing rate adjustments, appear to be reasonable;¹
3. Utilization of the joint new facility financing agreement, and the separate pipeline capacity payment requirement, represent elements of this Arrangement that should reduce the ultimate cost to captive ratepayers when compared to alternatives identified by Liberty; and,
4. The cost-sharing elements of this Arrangement appear to be reasonable and these provisions assure that the cost-causer, and not captive ratepayers, are to be responsible for covering any incremental operating costs.

Staff's analysis of Liberty's filing included a high level evaluation of the estimated impact of quantifiable benefits to captive Liberty's customers resulting from this Arrangement. Consideration of these benefits required Staff to make assumptions regarding the value of the various investment alternatives, and resulting revenues and expenses associated with the current proposal and other effluent disposal solutions that might need to be considered if this alternative was not available. Staff notes that it is challenging to evaluate the likely impacts of an agreement covering a 100-year period. The risks, trade-off values, and potential rate-impacts of many of the provisions will be propelled by future realities that for now can only be given consideration within the context of tenable assumptions.

¹ However, by this acknowledgment, the Commission is not making a policy decision with regards to the use of such standardized cost escalators in other pending or future dockets;

Some of the provisions of the Agreement, such as the provision to sell long-term storage credits to CAWCD at a rate of \$138 per AF and the \$27.16 per AF effluent delivery fee (current rates, but subject to CPI-U price escalator) provision, do not require additional analysis. Selling these long-term storage credits is currently an option for Liberty, so this does not represent additional value to

Liberty. The \$27.16 per AF delivery fee is designed to reimburse Liberty for incremental costs incurred by Liberty in delivering and disposing of effluent on behalf of the CAWCD, so there will be no incremental profit accruing to Liberty from this provision.

Further, the Commission does not regulate the sale and transfer of Long-Term Storage Credits. Therefore, Staff does not recommend that the Commission approve Liberty's agreement to sell to CAWCD all Long-Term Storage Credits accrued and offered by Liberty and the Effluent Recharge Facility, that are not required for Liberty's own water supply purposes for a period of 100 years. However, the sale of the Long-Term Storage Credits may have ratemaking implications that will need to be addressed in future rate cases.

The Applicants are also requesting Commission approval for CAWCD to pay Liberty a per acre-foot charge for transportation, delivery and disposal of CAWCD's Effluent Entitlement (2,400 AF) to the Effluent Recharge Project. The per acre-foot delivery charge is \$27.16 per acre foot of effluent delivered to the Effluent Recharge, subject to annual CPI-U adjustments. In addition, CAWCD is to reimburse Liberty for a pro-rata share of "Extraordinary O&M Expenses" incurred for the Effluent Recharge Facility. To the extent practical, Liberty is to meet and confer with CAWCD regarding the need to incur such costs.

The \$27.16 per acre-foot initial charge is an estimate comprised of an assumed actual power cost of \$19.16 per acre-foot and an agreed upon maintenance fee of \$8.00 per acre-foot. The \$19.16 per acre-foot charge appears to be a 2011-based calculation so that 2014 and later delivery fees will actually be higher due to the CPI-U escalator. While the \$27.16 delivery fee is designed to recover incremental costs there is (arguably) no incremental value to Liberty associated with the receipt of these expense-reimbursement revenues.

Liberty is currently paying the RID \$21 per AF to dispose of excess effluent at its PVWRF facility, plus an additional \$2,500 monthly connection fee, both of which would be avoided once the Effluent Project is complete and operational. This will represent a true cost reduction to Liberty and eventually to its ratepayers since these costs are currently embedded in the Company's ACC-approved base rates, and could eventually be removed. However, Staff does not believe that this cost reduction needs to be given specific consideration in analyzing the value of this new Arrangement since arguably such cost reductions may occur even if Liberty funded this entire Effluent Project.

The \$4,800,000 in CAWCD Effluent Project funding is of incremental value to Liberty and eventually to its ratepayers. Absent the receipt of this non-investor supplied funding, Liberty (and ultimately its ratepayers) would need to fund this \$4,800,000 investment since, as argued by Liberty,

there would be an eventual need to make this investment. Staff has estimated a value of \$18,672,476 to Liberty and its ratepayers from this funding. (This analysis does not take into account the time value of money.) This value includes the eventual recovery of the full \$4,800,000 through recognition of depreciation expense, plus a required rate of return ("ROR") of 8.76% and an income tax gross-up factor of 1.6496, taken from Decision No. 74437. The ROR and tax gross-up were applied to an average investment of \$2,400,000 over a 40-year depreciable plant life. The total

Effluent Project cost is still \$6,000,000 but the \$1,200,000 funded by Liberty is not given consideration since this would be a Liberty investment under either scenario.

Another element of tangible value associated with this Arrangement is the \$1,313,100 pipeline capacity payment to be paid by CAWCD. This payment assures use of an existing Liberty pipeline for a 100-year period so within an unsophisticated analysis the value of this one time capacity payment is \$13,131 per year. To align this value with the same 40-year period noted above, the value over this 40-year period would be \$525,240.

To summarize, Staff believes that there could be an incremental value of \$19,197,716 associated with this Arrangement to Liberty and its customers when viewed over a 40-year period. Viewed slightly differently, Staff believes that Liberty's customers would arguably be required to pay \$19,197,716 in higher revenues if Liberty had to fund this entire Effluent Project instead of utilizing the funding from CAWCD. Since the Arrangement provides for delivery of 2,400 AF of effluent per year during this 40-year period, a total of 96,000 acre feet of effluent would be delivered, so dividing \$19,197,716 by 96,000 acre feet equates to \$199.98 per AF of effluent.

Staff notes that in Decision No. 74437, Liberty is currently authorized to sell effluent at a negotiated amount, not to exceed \$430 per acre-foot. However, Liberty and the CAGR D have indicated that Liberty's existing tariff related to the sale of effluent does not adequately cover the unique character of the Arrangement, such as the \$27.16 per AF charge to be paid by CAWCD for effluent delivery. CAWCD and Liberty have further indicated that if they are unable to obtain a special tariff that appropriately addresses the complex and unique nature of this arrangement that CAWCD may not be willing to proceed with the project. If this were to occur, as indicated above, Liberty would still have a need to find a long term solution for disposing of its effluent at a significant additional cost to ratepayers.

Therefore, Staff believes that it would be appropriate for Liberty to create a special contract tariff that is based on the Company's existing effluent tariff but incorporates the necessary attributes to adequately address the arrangement between the parties.

In Decision No. 74437, the Commission determined that the fair value rate base for the wastewater division was \$24,190,673 and the water division was \$33,103,506. The Effluent Recharge Facility has yet to be constructed, so there will be no impact to the Liberty's fair value rate base as a result of the approval of this Application in the manner recommended by Staff. Further, Staff is recommending that the Company file concurrent rate applications for both the water and

wastewater divisions once the facility has been operational for a full 12-month period at which time arrangement-related ratemaking implications can be addressed. Staff notes that under Decision No. 74437, Liberty must file its next water division rate case on or before June 30, 2019, with a test year ending no later than December 31, 2018. Such a filing dateline should also apply to Liberty's wastewater division.

Within 60 days of the Commission's decision, Liberty should submit a proposed special contract tariff applicable to this Arrangement with CAWCD and that such tariff is to be submitted for review and approval by Staff as a compliance item.

The parties seem to be in agreement that the provisions of this arrangement will require future Commission action as rate cases are filed and plant investment levels, and agreement-related revenues and expenses are ultimately given consideration in setting the base rates authorized for the Liberty water and wastewater division. Staff agrees with the parties that future ratemaking considerations will exist, and will be recommending Commission approval of some interim regulatory accounting requirements (as listed below) to assure that such issues can be easily evaluated at the proper time and in the proper ratemaking context. However, Staff concludes that none of these ratemaking considerations need be addressed in conjunction with this Application.

Staff Recommendations

Since this Arrangement is of such great significance, Staff believes it would be beneficial for the Commission to direct Liberty to file with Docket Control reports documenting the progress of the construction of the Effluent Project and to specifically report the following:

1. Receipt of the \$1,313,100 pipeline capacity payment, and the regulatory accounting to be given to this long-term pipeline capacity payment;
2. Any changes in the agreed-to effluent delivery fees (initially expected to be \$27.16 per AF);
3. Any changes in the agreed-to price for the sale of effluent and effluent-derived long-term storage credits (initially expected to be \$138 per AF);
4. Any significant events occurring which materially impact performance under this agreement including, but not limited to, replacement or expansion of the PVWRF facility (Article 4.1.4), failure to deliver the full effluent entitlement (Article 4.1.7) and purchase of long-term storage credits (Article 5.1.3).
5. Annual reports showing the monthly RID Agreement-related expenses; and,
6. Liberty should provide specific notice to Staff if and when the RID Agreement is cancelled or notice of any agreement not to renew the RID Agreement.

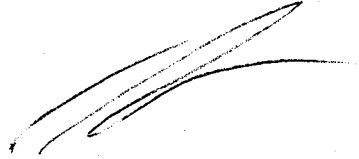
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THE COMMISSION

February 12, 2015

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A handwritten signature in black ink, consisting of several overlapping, sweeping strokes that form a stylized, cursive representation of the name Steven M. Olea.

Steven M. Olea
Director
Utilities Division

SMO:ML:sms\WVC

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 BOB STUMP

 Chairman

3 GARY PIERCE

 Commissioner

4 BRENDA BURNS

 Commissioner

5 BOB BURNS

 Commissioner

6 SUSAN BITTER SMITH

 Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF LIBERTY UTILITIES (LITCHFIELD)
10 PARK WATER AND SEWER) CORP.)
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13 ARIZONA WATER CONSERVATION)
14 DISTRICT AND EFFLUENT TARIFF.)

DOCKET NOS. SW-01428A-14-0369 and
W-01427A-14-0369

DECISION NO. _____

ORDER

15 Open Meeting
16 March 2 and 3, 2015
17 Phoenix, Arizona

18 BY THE COMMISSION:

19 FINDINGS OF FACT

20 Background

21 1. On October 14, 2014, Liberty Utilities (Litchfield Park Water & Sewer Corp.)
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23 Commission ("Commission") of specific provisions of an Agreement for Development of Effluent
24 Recharge Facility, Effluent Disposal and Purchase and Sale of Effluent that Liberty entered into with
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27 Management Area. Liberty holds a Certificate of Convenience and Necessity ("CC&N") issued by the
28 Commission. The Commission approved Liberty's current rates and charges for wastewater service,
including the sale of effluent, in Decision No. 74437 dated April 18, 2014

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2 and existing under the laws of the state of Arizona. Pursuant to A.R.S. § 48-3772, CAWCD is
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4 replenishment purposes. CAWCD is also authorized to acquire, transport, hold, exchange, own, or
5 lease water and water rights for replenishment purposes.

6 3. The Central Arizona Groundwater Replenishment District ("CAGRDR") is a division
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11 contracted with CAWCD for replenishment services.

12 4. CAWCD has enrolled member lands and member service areas in the west Salt River
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4 8. Liberty and CAWCD are jointly developing the Effluent Recharge Project to dispose of
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6 such effluent to offset replenishment obligations for this region.

7 9. On June 22, 2010, CAWCD and Liberty executed an agreement to cost-share a
8 Hydrologic Feasibility Study ("Hydrological Study") to determine feasibility of constructing a recharge
9 facility within Liberty's CC&N. Liberty indicates that the mutual goal of the parties was to initiate a
10 long-term partnership between Liberty and CAWCD for the development of a recharge facility to
11 store excess effluent produced at PVWRF or other wastewater reclamation facilities, and to enter a
12 long-term agreement for CAWCD to acquire and receive such excess effluent from Liberty.

13 10. According to Liberty, the Hydrologic Study proceeded in two phases. Phase 1
14 involved retaining a hydrological consultant to locate and determine suitable sites for the proposed
15 Effluent Recharge Project. Phase 2 involved retaining a hydrological consultant to provide conceptual
16 designs, cost estimates and a feasibility analysis for construction of the proposed Effluent Recharge
17 Project. The Phase 1 investigation was completed on February 17, 2011, and identified several
18 potential sites for the proposed Effluent Recharge Project. The Phase 2 investigation was completed
19 on or about August 1, 2013, and determined that a viable, cost-effective Effluent Recharge Project
20 capable of storing at least 5,000 AF of effluent annually can be developed and constructed within
21 Liberty's CC&N.

22 The Development Agreement

23 11. As indicated above, on February 6, 2014, Liberty and CAWCD entered into an
24 Agreement for Development of Effluent Recharge Facility, Effluent Disposal and Purchase and Sale
25 of Effluent ("Development Agreement"). A copy of this Development Agreement was provided
26 under Exhibit A to the pending Application.

27 12. The Central Arizona Project ("CAP")/CAWCD Board unanimously approved the
28 Development Agreement at an open meeting on February 6, 2014. The Development Agreement

1 governs (1) the development, design, funding, construction and operation of the Effluent Recharge
2 Project; (2) the agreement for Liberty to sell/dispose of and deliver 2,400 AF of effluent to CAWCD
3 per year for 100 years; and (3) the agreement for the purchase by CAWCD of Long-Term Storage
4 Credits accrued by Liberty at the Effluent Recharge Project and the pricing terms.

5 13. CAWCD and Liberty have agreed to jointly finance the Effluent Recharge Project.
6 Under the Development Agreement, CAWCD shall pay a minimum of \$4,800,000 and Liberty shall
7 pay a minimum of \$1,200,000 for costs associated with the development, design, permitting and
8 construction of the Effluent Recharge Project. Those costs are subject to change based on actual,
9 final construction costs for the Effluent Recharge Project. Liberty shall own and operate the Effluent
10 Recharge Project.

11 14. Under the Development Agreement, Liberty shall grant CAWCD an annual
12 entitlement to 2,400 AF of storage capacity and deliver 2,400 AF of effluent per year to CAWCD at
13 the Effluent Recharge Project for 100-years ("Effluent Entitlement"). CAWCD shall pay Liberty to
14 deliver CAWCD's Effluent Entitlement (2,400 AF) to the Effluent Recharge Project. The delivery
15 charge is \$27.16 per acre foot of effluent delivered to the Effluent Recharge Project, subject to annual
16 Consumer Price Index—All Urban Consumers ("CPI-U") adjustments.

17 15. Currently, Liberty pays Roosevelt Irrigation District ("RID") approximately \$21 per
18 acre-foot to dispose of excess effluent from PVWRF, plus an additional \$2,500 monthly connection
19 fee for a discharge box constructed adjacent to the RID canal. Liberty's excess effluent is delivered
20 for disposal in the RID Canal through that discharge box owned by Liberty.

21 16. Disposal of excess effluent through the agreement with RID is not a sufficient long-
22 term option because (1) Liberty does not have a long-term agreement with RID, (2) RID may or may
23 not continue to allow discharge of effluent to the RID canal, (3) the RID canal has annual dry up
24 periods during which effluent discharge is not accepted, requiring Liberty to dispose of effluent on
25 farm fields, the availability of which is disappearing due to organic farming that does not allow use of
26 effluent, (4) any breach of the RID canal results in immediate disruption of effluent discharges to the
27 RID canal and (5) customers that benefit from discharge of effluent to the RID canal are located miles
28 outside of Liberty's CC&N, meaning that groundwater availability within Liberty's CC&N is not

1 directly benefitted from discharge of effluent to the RID canal. Other available alternatives to address
2 long-term disposal of the PVWRF excess effluent would be for Liberty to construct and fund an
3 effluent recharge project itself or construct a long-distance pipeline to the Agua Fria River.

4 17. Under the Development Agreement, Liberty has committed to delivering and
5 disposing of effluent discharged from PVWRF that is not reused by customers within or outside
6 Liberty's CC&N service area, or delivered to CAWCD pursuant to the Effluent Entitlement, to the
7 Effluent Recharge Project. Liberty has agreed to store such effluent at the Effluent Recharge Project
8 to generate Long-Term Storage Credits as authorized by applicable law.

9 18. Under the Development Agreement, Liberty agrees to sell to CAWCD the 2,400 AF
10 Effluent Entitlement each year at the rate(s) set forth in the Development Agreement and CAWCD
11 agrees to purchase from Liberty all Long-Term Storage Credits accrued and offered by Liberty at the
12 Effluent Recharge Project that are not required for Liberty's own water supply purposes for a period
13 of 100 years. The charge for Long-Term Storage Credits in 2013 was \$138.00 per acre-foot, subject to
14 annual CPI-U adjustments. The charge for such Long-Term Storage Credits is also subject to other
15 price adjustments that either party may request every five years.

16 19. On May 13, 2014, Liberty executed a purchase contract with the landowner for
17 acquisition of the site for the Effluent Recharge Project. Liberty shall own and operate the Effluent
18 Recharge Project, including any and all land on which the Project is located.

19 20. Liberty owns an existing pipeline that will transport effluent from PVWRF to the
20 Effluent Recharge Project (the "Effluent Pipeline"). CAWCD shall pay Liberty approximately
21 \$1,313,100 for use of the pipeline. Upon such payment, Liberty shall reserve to CAWCD the
22 necessary capacity in the Effluent Pipeline sufficient to transport 2,400 AF of effluent per year to the
23 Effluent Recharge Project.

24 21. Under the Development Agreement, Liberty and CAWCD will share operation and
25 maintenance costs of the Effluent Recharge Project and Effluent Pipeline.

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Commission Approval

22. Liberty asserts that because of its substantial financial commitment for the Effluent Recharge Project, CAWCD seeks assurances from the Commission that Liberty has the right and authority to commit the Effluent Entitlement to CAWCD for 100 years, including approval of the agreed upon rates and rate-adjustment mechanisms for delivery and disposal of Effluent to the Effluent Recharge Project and purchase of Long-Term Storage Credits by CAWCD.

23. Liberty asserts and believes that Commission approval of the Development Agreement for sale of effluent to CAWCD is not necessary or required under Arizona law. Liberty also asserts that it is not waiving any arguments relating to Commission jurisdiction, future sales of effluent, or any other similar issues relating to the Effluent Recharge Project and the Development Agreement. As stated above, Liberty is making this filing because CAWCD, a public entity, seeks certainty that the Effluent Entitlement from Liberty will be available to meet CAWCD's replenishment obligations at the agreed charges set forth above. CAWCD also seeks assurances from the Commission as to Liberty's provision of the Effluent Entitlement to CAWCD for 100 years as provided in the Development Agreement, and that the rates for the Effluent Entitlement and purchase of Long-Term Storage Credits in the Development Agreement do not violate any Commission rules, policies and decisions and/or tariffs of Liberty.

24. Ultimately Liberty seeks Commission approval of the following special contract terms set forth in the attached Development Agreement in the best interests of Liberty's customers, the public and CAP/CAWCD:

A. Article 3, § 3.1.3 CAWCD's Storage Capacity Entitlement. Approval of Article 3, § 3.1.3 of the Development Agreement relating to CAWCD's entitlement to 2,400 AF of storage capacity in the Effluent Recharge Project for 100 years.

B. Article 3, § 3.1.10 Effluent Delivery Charge. Approval of Article 3, § 3.1.10 of the Development Agreement relating to Liberty's per-acre foot delivery charge for transportation, delivery and disposal of CAWCD's Effluent Entitlement at the Effluent Recharge Project. Based on 2013 data, that effluent delivery charge amounts to \$27.16 per acre-foot, subject to CPI-U adjustments in future years.

1 C. Article 4, § 4.1.1 CAWCD's Effluent Entitlement. Approval of Article 4, § 4.1.1 of the
2 Development Agreement relating to CAWCD's annual Effluent Entitlement and
3 Liberty's 100-year obligation to deliver the Effluent to the Effluent Recharge Project.

4 D. Article 5, § 5.1.4 (Term) and § 5.1.5 (Purchase Price). Approval of Article 4, §§ 5.1.4
5 and 5.1.5 of the Development Agreement relating to Liberty's agreement to sell and
6 CAWCD's agreement to purchase Long-Term Storage Credit accrued by Liberty at the
7 Effluent Recharge Project for 100-years and the proposed pricing for those Long-
8 Term Credits.

9 Benefits of the Effluent Recharge Project

10 25. Liberty indicates in its application that the Effluent Recharge Project will provide a
11 number of benefits. Liberty asserts the Effluent Recharge Project will increase the water supply
12 availability within Liberty's CC&N specifically and in the West Valley generally, which will benefit
13 Liberty's customers and the general public. The Effluent Recharge Project will recharge effluent
14 within one mile of declining groundwater elevations associated with the "Luke Sink" near Luke Air
15 Force Base, which will in turn help address problems resulting from declines in ground water
16 elevations in the area.

17 26. Liberty also indicates there are a number of other benefits associated with the Effluent
18 Recharge Project. First, it will increase CAWCD's ability to recharge the aquifer in the already-
19 developed portions of the western Phoenix AMA, which will ultimately benefit Liberty's customers
20 and the general public. Second, the Effluent Recharge Project will reduce the need for CAP water in
21 recharge operations and support the use of a long-term renewable supply of water through excess
22 effluent from PVWRF. Third, the Effluent Recharge Project will benefit Liberty's customers by
23 resolving the Company's need for a long-term method for disposal of excess effluent from PVWRF.
24 According to Liberty, the Company currently pays RID \$21 per acre-foot to dispose of excess effluent
25 from PVWRF plus an additional \$2,500 monthly connection fee. Liberty claims that in the event this
26 project does not move forward it will need to construct and fund a similar effluent recharge project or
27 a long-distance pipeline to the Agua Fria River to find a long-term solution for disposing of excess
28 effluent. Liberty notes that in either case Liberty's customers would face a rate increase attributable to

1 funding the entire cost of either project. For this reason, Liberty asserts that the joint Effluent
2 Recharge Project will provide an economically beneficial means for it to dispose of excess effluent,
3 while minimizing rate impacts to its customers. Fourth, Liberty asserts that this project will provide a
4 model for public-private partnerships that increase CAP availability and recharges aquifers with excess
5 effluent.

6 27. Further, Liberty claims there are a number of benefits associated with the project that
7 will inure to its customers specifically. First, the Effluent Recharge Project will recharge the aquifer
8 and replenish the groundwater within Liberty's CC&N area and within the service area where the
9 groundwater is pumped. Liberty notes that many of its customers pay a CAGR assessment in
10 property taxes from groundwater replenishment. Second, Liberty asserts that the Effluent Recharge
11 Project will benefit customers by providing Liberty with yearly payments from CAWCD. Liberty
12 asserts that these payments for the Effluent Entitlement and Long-Term Storage Credits will create a
13 stable revenue source to strengthen Liberty's financial capacity to serve.

14 28. The Effluent Recharge Project will reduce the need for CAP water in recharge
15 operations and support use of a long-term renewable supply of water through excess effluent from
16 PVWRF.

17 Staff Analysis:

18 29. Staff reviewed Liberty's Application inclusive of Exhibit A – the Agreement for
19 Development of Effluent Recharge Facility, and Effluent Disposal and Purchase and Sale of Effluent,
20 Exhibit B – Legal Description for a Map of the Project Site, and Exhibit C – a Spreadsheet Illustrating
21 the Rate Benefit of the Effluent Recharge Project with CAWCD by Comparison to an Effluent
22 Recharge Project Funded Solely by Liberty.

23 30. After reviewing the Application, Staff agrees the Effluent Recharge Project will result
24 in public benefits. These public interest benefits are expected to include an increase in water supply
25 availability within Liberty's CC&N, help reverse declining ground water elevations in the Luke Sink
26 area, and reduce the need to use CAP water to meet recharge obligations.

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1 31. The Development Agreement (also referred to as the "Arrangement") that Liberty has
2 entered into with CAWCD (the "parties") is unique and the parties are making a broad spectrum of
3 commitments for a 100-year period. The overall goal of both parties appears to be to achieve a fair
4 and balanced plan that will benefit the local aquifer while delivering long-term solutions for the
5 CAWCD, Liberty, and for Liberty's ratepayers.

6 32. Although this Arrangement is long-term in nature and unique, Staff supports the
7 overall concept. However, Staff also agrees with Liberty that entering into the underlying
8 Development Agreement, and selling effluent to CAWCD are matters of management discretion.
9 Staff further agrees with Liberty that specific Commission approval of any isolated elements of this
10 Arrangement or the Agreement as a whole is not required based on the circumstances of this case.
11 While Staff does not recommend that the Commission approve the Agreement or any isolated
12 elements of the Agreement, Staff does recommend that the Commission express its general support
13 for the Arrangement due to the public benefits to be derived. In particular, Staff recommends that the
14 Commission acknowledge that the Arrangement is predicated on following key elements:

- 15 A. Liberty is committing to selling/disposing and delivering 2,400 AF of excess effluent,
16 and to the sale of long-term storage credits derived from the utilization of excess
17 effluent to meet water recharge obligations, to CAWCD each year for a 100-year
18 period;
- 19 B. The rates to be utilized to perfect dealings under this Arrangement, while uniquely
20 structured in terms of a reliance upon CPI-U-driven annual billing rate adjustments,
21 appear to be reasonable.¹
- 22 C. Utilization of the joint new facility financing agreement, and the separate pipeline
23 capacity payment requirement, represent elements of this Arrangement that should
24 reduce the ultimate cost to captive ratepayers when compared to alternatives identified
25 by Liberty; and,
- 26
- 27

28 ¹ However, by this acknowledgment, the Commission is not making a policy decision with regards to the use of such
standardized cost escalators in other pending or future dockets;

1 D. The cost-sharing elements of this Arrangement appear to be reasonable and these
2 provisions assure that the cost-causer, and not captive ratepayers, are responsible for
3 covering any incremental operating costs.

4 33. Staff's analysis of Liberty's filing included a high level evaluation of the estimated
5 impact of quantifiable benefits to captive Liberty's customers resulting from this Arrangement.
6 Consideration of these benefits required Staff to make assumptions regarding the value of the various
7 investment alternatives, and resulting revenues and expenses associated with the current proposal and
8 other effluent disposal solutions that might need to be considered if this alternative was not available.
9 Staff notes that it is challenging to evaluate the likely impacts of an agreement covering a 100-year
10 period. The risks, trade-off values, and potential rate-impacts of many of the provisions will be
11 propelled by future realities that for now can only be given consideration within the context of tenable
12 assumptions.

13 34. Some of the provisions of the Agreement, such as the provision to sell long-term
14 storage credits to CAWCD at a rate of \$138 per AF and the \$27.16 per AF effluent delivery fee
15 (current rates, but subject to CPI-U price escalator) provision, do not require additional analysis.
16 Selling these long-term storage credits is currently an option for Liberty, so this does not represent
17 additional value to Liberty. The \$27.16 per AF delivery fee is designed to reimburse Liberty for
18 incremental costs incurred by Liberty in delivering and disposing of effluent on behalf of the
19 CAWCD, so there will be no incremental profit accruing to Liberty from this provision.

20 35. Further, the Commission does not regulate the sale and transfer of Long-Term Storage
21 Credits. Therefore, Staff does not recommend that the Commission approve Liberty's agreement to
22 sell to CAWCD all Long-Term Storage Credits accrued and offered by Liberty and the Effluent
23 Recharge Facility, that are not required for Liberty's own water supply purposes for a period of 100
24 years. However, the sale of the Long-Term Storage Credits may have ratemaking implications that
25 will need to be addressed in future rate cases.

26 36. The Applicants are also requesting Commission approval for CAWCD to pay Liberty a
27 per acre-foot charge for transportation, delivery and disposal of CAWCD's Effluent Entitlement
28 (2,400 AF) to the Effluent Recharge Project. The per acre-foot delivery charge is \$27.16 per acre foot

1 of effluent delivered to the Effluent Recharge, subject to annual CPI-U adjustments. In addition,
2 CAWCD is to reimburse Liberty for a pro-rata share of "Extraordinary O&M Expenses" incurred for
3 the Effluent Recharge Facility. To the extent practical, Liberty is to meet and confer with CAWCD
4 regarding the need to incur such costs.

5 37. The \$27.16 per acre-foot initial charge is an estimate comprised of an assumed actual
6 power cost of \$19.16 per acre-foot and an agreed upon maintenance fee of \$8.00 per acre-foot. The
7 \$19.16 per acre-foot charge appears to be a 2011-based calculation so that 2014 and later delivery fees
8 will actually be higher due to the CPI-U escalator. While the \$27.16 delivery fee is designed to recover
9 incremental costs there is (arguably) no incremental value to Liberty associated with the receipt of
10 these expense-reimbursement revenues.

11 38. Liberty is currently paying the RID \$21 per AF to dispose of excess effluent at its
12 PVWRF facility, plus an additional \$2,500 monthly connection fee, both of which would be avoided
13 once the Effluent Project is complete and operational. This will represent a true cost reduction to
14 Liberty and eventually to its ratepayers since these costs are currently embedded in the Company's
15 ACC-approved base rates, and could eventually be removed. However, Staff does not believe that this
16 cost reduction needs to be given specific consideration in analyzing the value of this new Arrangement
17 since arguably such cost reductions may occur even if Liberty funded this entire Effluent Project.

18 39. The \$4,800,000 in CAWCD Effluent Project funding is of incremental value to Liberty
19 and eventually to its ratepayers. Absent the receipt of this non-investor supplied funding, Liberty (and
20 ultimately its ratepayers) would need to fund this \$4,800,000 investment since, as argued by Liberty,
21 there would be an eventual need to make this investment. Staff has estimated a value of \$18,672,476
22 to Liberty and its ratepayers from this funding. (This analysis does not take into account the time
23 value of money.) This value includes the eventual recovery of the full \$4,800,000 through recognition
24 of depreciation expense, plus a required rate of return ("ROR") of 8.76% and an income tax gross-up
25 factor of 1.6496, taken from Decision No. 74437. The ROR and tax gross-up were applied to an
26 average investment of \$2,400,000 over a 40-year depreciable plant life. The total Effluent Project cost
27 is still \$6,000,000 but the \$1,200,000 funded by Liberty is not given consideration since this would be
28 a Liberty investment under either scenario.

1 40. Another element of tangible value associated with this Arrangement is the \$1,313,100
2 pipeline capacity payment to be paid by CAWCD. This payment assures use of an existing Liberty
3 pipeline for a 100-year period so within an unsophisticated analysis the value of this one time capacity
4 payment is \$13,131 per year. To align this value with the same 40-year period noted above, the value
5 over this 40-year period would be \$525,240.

6 41. To summarize, Staff believes that there could be an incremental value of \$19,197,716
7 associated with this Arrangement to Liberty and its customers when viewed over a 40-year period.
8 Viewed slightly differently, Staff believes that Liberty's customers would arguably be required to pay
9 \$19,197,716 in higher revenues if Liberty had to fund this entire Effluent Project instead of utilizing
10 the funding from CAWCD. Since the Arrangement provides for delivery of 2,400 AF of effluent per
11 year during this 40-year period, a total of 96,000 acre feet of effluent would be delivered, so dividing
12 \$19,197,716 by 96,000 acre feet equates to \$199.98 per AF of effluent.

13 42. Staff notes that in Decision No. 74437, Liberty is currently authorized to sell effluent
14 at a negotiated amount, not to exceed \$430 per acre-foot. However, Liberty and the CAGRD have
15 indicated that Liberty's existing tariff related to the sale of effluent does not adequately cover the
16 unique character of the Arrangement, such as the \$27.16 per AF charge to be paid by CAWCD for
17 effluent delivery. CAWCD and Liberty have further indicated that if they are unable to obtain a special
18 tariff that appropriately addresses the complex and unique nature of this arrangement that CAWCD
19 may not be willing to proceed with the project. If this were to occur, as indicated above, Liberty
20 would still have a need to find a long term solution for disposing of its effluent at a significant
21 additional cost to ratepayers.

22 43. Staff believes that it would be appropriate for Liberty to create a special contract tariff
23 that is based on the Company's existing effluent tariff but incorporates the necessary attributes to
24 adequately address the arrangement between the parties.

25 44. In Decision No. 74437, the Commission determined that the fair value rate base for
26 the wastewater division was \$24,190,673 and the water division was \$33,103,506. As noted the
27 Effluent Recharge Facility has yet to be constructed, so there will be no impact to the Liberty's fair
28 value rate base as a result of the approval of this Application in the manner recommended by Staff.

1 Further, Staff is recommending that the Company file concurrent rate applications for both the water
2 and wastewater divisions once the facility has been operational for a full 12-month period at which
3 time Arrangement-related ratemaking implications can be addressed. Staff notes that under Decision
4 No. 74437, Liberty must file its next water division rate case on or before June 30, 2019, with a test
5 year ending no later than December 31, 2018. Such a filing dateline should also apply to Liberty's
6 wastewater division.

7 45. The parties seem to be in agreement that the provisions of this arrangement will
8 require future Commission action as rate cases are filed and plant investment levels and agreement-
9 related revenues and expenses are ultimately given consideration in setting the base rates authorized
10 for the Liberty water and wastewater division.

11 46. Staff agrees with the parties that future ratemaking considerations will exist, and will be
12 recommending Commission approval of some interim regulatory accounting requirements to assure
13 that such issues can be easily evaluated at the proper time and in the proper ratemaking context.
14 However, Staff concludes that none of these ratemaking considerations need be addressed in
15 conjunction with this Application.

16 Staff Recommendations

17 47. Since this Arrangement is of such great significance, Staff recommends that Liberty
18 should report the following through Docket Control:

- 19 A. Receipt of the \$1,313,100 pipeline capacity payment, and the regulatory accounting to
20 be given to this long-term pipeline capacity payment;
- 21 B. Any changes in the agreed to effluent delivery fees (initially expected to be \$27.16 per
22 AF);
- 23 C. Any changes in the agreed to price for the sale of effluent and effluent-derived long-
24 term storage credits (initially expected to be \$138 per AF);
- 25 D. Any significant events occurring which materially impact performance under this
26 agreement including, but not limited to, replacement or expansion of the PVWRF
27 facility (Article 4.1.4), failure to deliver the full effluent entitlement (Article 4.1.7) and
28 purchase of long-term storage credits (Article 5.1.3).

1 E. Annual reports showing the monthly RID Agreement-related expenses; and,

2 F. Specific notice to Staff if and when the RID Agreement is cancelled or notice of any
3 agreement not to renew the RID Agreement.

4 48. Staff notes that under Decision No. 74437, Liberty must file its next water division
5 rate case on or before June 30, 2019, with a test year ending no later than December 31, 2018. Staff
6 recommends that such a filing dateline should also apply to Liberty's wastewater division.

7 49. Within 60 days of the Commission's decision, Liberty should submit a proposed
8 special contract tariff applicable to this Arrangement with CAWCD and that such tariff is to be
9 submitted for review and approval by Staff as a compliance item.

10 50. Reporting related to activities of a continuing nature (all items except A) should be
11 made until Liberty docket its next full rate review for affected water and wastewater division.

12 51. The Commission agrees with Staff's analysis and adopts them herein.

13 CONCLUSIONS OF LAW

14 1. Liberty Utilities (Litchfield Park Water & Sewer) Corp. is an Arizona public service
15 corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

16 2. The Commission has jurisdiction over Liberty Utilities and of the subject matter of its
17 application.

18 3. The Commission, having reviewed the filing and Staff's memorandum dated February
19 12, 2015, concludes that it is in the public interest to adopt Staff's recommendations as contained
20 herein.

21 4. The terms of the Development Agreement, as currently stated, do not require
22 Commission approval.

23 ORDER

24 IT IS THEREFORE ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp.
25 may sell all or any excess effluent to the CAGR D at a rate not to exceed Liberty Utilities (Litchfield
26 Park Water & Sewer) Corp.'s Commission-authorized rate, unless approved to do so by the
27 Commission.

28 ...

1 IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp.
2 shall report the following through Docket Control:

3 A. Receipt of the \$1,313,100 pipeline capacity payment, and the regulatory accounting to
4 be given to this long-term pipeline capacity payment;

5 B. Any changes in the agreed-to effluent delivery fees (initially expected to be \$27.16 per
6 AF);

7 C. Any changes in the agreed-to price for the sale of effluent and effluent-derived long-
8 term storage credits (initially expected to be \$138 per AF);

9 D. Any significant events occurring which materially impact performance under this
10 agreement including, but not limited to, replacement or expansion of the PVWRF facility (Article
11 4.1.4), failure to deliver the full effluent entitlement (Article 4.1.7) and purchase of long-term storage
12 credits (Article 5.1.3).

13 E. Annual reports showing the monthly RID Agreement-related expenses; and,

14 F. Specific notice to Staff if and when the RID Agreement is cancelled or notice of any
15 agreement not to renew the RID Agreement.

16 IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp.
17 shall file its next rate applications for its water and wastewater divisions concurrently on or before
18 June 30, 2019, with a test year ending no earlier than December 31, 2018.

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1 IT IS FURTHER ORDERED that within 60 days of the Commission's decision, Liberty
2 Utilities shall submit a proposed special contract tariff applicable to this Arrangement with CAWCD
3 and that such tariff is to be submitted for review and approval by Staff as a compliance item in this
4 docket.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6
7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

8
9 _____
CHAIRMAN

COMMISSIONER

10
11
12 COMMISSIONER

COMMISSIONER

COMMISSIONER

13
14 IN WITNESS WHEREOF, I, JODI JERICH, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto, set my hand and caused the official seal of this
17 Commission to be affixed at the Capitol, in the City of
18 Phoenix, this _____ day of _____, 2015.

19 _____
JODI JERICH
EXECUTIVE DIRECTOR

20
21 DISSENT: _____

22
23 DISSENT: _____

24 SMO:DH:sms\WVC\ML
25
26
27
28

Decision No. _____

SERVICE LIST FOR: Liberty Utilities (Litchfield Park Water and Sewer) Corp.
DOCKET NOS. SW-01428A-14-0369 and W-01427A-14-0369

Mr. Jay Shapiro
Fennemore Craig, P.C.
2394 E. Camelback Rd. - 600
Phoenix Arizona 85016

Mr. Todd Wiley
Liberty Utilities Corporation
12725 W. Indian School Rd. Suite D101
Avondale Arizona 85392

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007